



**2011 Annual General Meeting
Chairman's Address**

Welcome to the 2011 Karoon Gas Australia Ltd Annual General Meeting. Today I will make some short remarks about the previous year and look forward to an exciting 2012. Mark Smith will run you over the assets and the upcoming program but by way of introduction, over the next 18 months Karoon is about to move into the next phase of exploration with its global drilling campaign.

Later this year or at the beginning of next year, a five to eight well drilling program in the Browse Basin will commence. Currently the Transocean Legend is undergoing scheduled routine maintenance in Dampier, before the joint venture commences its five to eight well drilling program. The aim of this exciting program is to define the size and quality of the discovered gas resources in the greater Poseidon and surrounding structures to the point where we can confirm and move ahead with a commercial development.

In the Santos Basin Brazil, Karoon will commence drilling a minimum of three wells which have the potential to add substantial oil resources to our portfolio, with target prospect sizes in excess of 200 million barrels each in the initial wells. The new wide azimuth seismic has also defined new pre salt prospects with the potential to much larger billion barrel plus targets which could be drilled later in the program.

In the Tumbes Basin Peru, we are currently in the rig market through a tender process with the aim of securing a drilling rig to start drilling two wells in late in 2012. This drilling program gives Karoon shareholders exposure to a third exploration program with target prospect sizes in excess of 200 million barrels each.

Other important news items in the near term are set to include:

- an audit of Karoon's prospective oil and gas resources by independent experts DeGolyer and McNaughton in the coming months.
- farmouts of Peru and Brazil assets.

- farmout of WA-314-P in late 2012.

Over the past two years, Karoon has been working hard to prepare for this upcoming exploration campaign.

Items of significance over the previous 18 month include.

- the successful flow of 26 million standard cubic feet of gas per day of gas out of the Kronos-1 well,
- we farmed in to the Santos Basin Block BM-S1352 operated by Petrobras, the third biggest oil and gas company in the world.
- A discovery was then made and subsequent production test at Maruja flowed at 6100 barrels a day. Work is continuing to evaluate and commercialize this discovery.
- the processing and interpretation of 3D seismic in Brazil and Peru with an increase of unrisks prospective resources.

This information while important to the overall progress of Karoon toward confirming solid bookable resource base, has been over shadowed by two other major news items:

The withdrawn IPO for the South American Assets on the Brazilian stock exchange and the delay in the Browse drilling due to regulatory holdups.

It is essential that I take a moment to discuss the withdrawing of the IPO by Karoon, late last year. In the lead up to the IPO, market conditions changed unfavourably with a distinct change in sentiment as a result of both a temporary over supply of Brazilian equities through the largest capital raising in history by Petrobras, and underperformance of other recent IPO in the immediate timing around the pricing of the Karoon Brazil IPO.

The board felt that the goal of providing an avenue for Karoon shareholders to gain value through the Brazilian IPO was not being achieved at the final offer prices by bidders for the IPO, particularly given the potential of the asset base.

Where we are now. Better off without the IPO.

As you will see from the presentation that Mark Smith will provide today, as a team we feel in the long run, Karoon shareholders will have the opportunity to extract more value from the single company structure than as result of the IPO.

Currently world markets and in particular Brazilian Oil and gas companies are performing very poorly.

After a great deal of work by our Browse Joint Venture, final environmental approvals have been achieved. The process of reaching a conclusion was long and set the anticipated commencement date for the Browse drilling back several months..

In a post Macondo and Montara disaster world, it is very important that governments better regulate to ensure safety is the number one priority when drilling. All necessary regulatory approvals are finally in place with minimal cost implications for the upcoming drilling program.

Way forward

The combined drilling programs over the next eighteen to twenty four months across two continents will test a range of large independent prospects and field appraisal targets, with the potential to dramatically increase Karoon's discovered resource portfolio. In this period Karoon will have potentially executed farm-out deals in Australia, Peru and Brazil and be close to completing the five to eight Browse Basin wells. The three wells in Brazil and two more in Peru will also be near complete. This makes Karoon one of Australia's most active oil and gas exploration companies, aimed at creating shareholder value through exploration. Karoon shareholders have a very exciting year ahead.



Robert Hosking
Executive Chairman
Karoon Gas Australia Ltd